

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF ST. LOUIS	County GRATIOT
Audit Date JUNE 30, 2004	Opinion Date SEPTEMBER 22, 2004	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

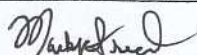
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).	X		

Certified Public Accountant (Firm Name) BURNSIDE & LANG, P.C.			
Street Address 5915 EASTMAN AVENUE, SUITE 100	City MIDLAND	State MI	ZIP 48640
Accountant Signature  CPA, CS&P 2/08/05			

CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN

FINANCIAL STATEMENTS
For The Year Ended June 30, 2004

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2004**

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CITY OF ST. LOUIS

MIDDLE OF THE ROAD



January 25, 2005

To the Honorable Mayor, Members of the Governing Council and Citizens of the City of Saint Louis:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement and a one month extension thereto granted by the State, we hereby issue the comprehensive annual financial report of the City of Saint Louis for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Saint Louis. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations management of the City of Saint Louis has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Saint Louis' financial statement in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Saint Louis' comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The city of Saint Louis' financial statements have been audited by Burnside & Lang, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Saint Louis for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Saint Louis' financial statements for the fiscal year ending

June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Saint Louis was part of a broader, federally mandated "Single Audit" designed to meet the special require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Saint Louis' separately issued Single Audit Report. GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Saint Louis' MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Saint Louis, incorporated in 1853, is located in the central part of Michigan, which is considered to be a growing area. The City of Saint Louis currently occupies a land area of 3.07 square miles and serves a population of 5,453. The City of Saint Louis is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by the state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The city of Saint Louis operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and four other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the government's manager and City Clerk. The government's manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with four council members elected every two years. The mayor is elected to serve a two-year term. The mayor and the two remaining council members are elected at large.

The City of Saint Louis provides a full range of services, including police and fire protection; sanitation; the construction and maintenance of streets and other infrastructure.

The annual budget serves as a foundation for the City of Saint Louis' financial planning and control. All agencies of the City of Saint Louis are required to submit requests for appropriation to the City Manager on or before the first of April each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the council for review prior to the first regular meeting in May. The council is required to a hold public hearing on the proposed budget and to adopt a final budget by no later than the first regular meeting in June. The appropriate budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Transfers of appropriations between

departments, however, require the special approval of the governing council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented as part of the basic financial statements for the governmental funds. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Saint Louis operates.

Local economy.

The region (which includes the City of Saint Louis and the surrounding unincorporated area within the same county) has an employed labor force of approximately 1,775, which is anticipated to grow at a rate of between 2 percent and 3 percent each year for the next several years. The government's central business district is expected to maintain its current 90 percent occupancy rate with a variety of stores, specialty shops, and commercial businesses. Meanwhile, there continues to be a discernable trend toward steady residential growth.

Long-term financial planning. The City Council goals include: Promoting a healthy and sustainable level of growth in St. Louis by carefully establishing future land use patterns; ensuring that adequate land is reserved for a variety of types of residential development; preserving the character of the existing residential areas by encouraging compatible development in and around the neighborhoods; ensuring that adequate land is reserved for industrial development; ensuring that adequate land is reserved for parks, open space and connecting trails; ensure that adequate land is reserved for public facilities such as schools, libraries, fire stations, community centers and other facilities; promoting a healthy downtown by concentrating commercial activities near the City's center or areas leading to the center; selectively adding areas adjacent to St. Louis to promote a healthy and sustainable level of growth; redeveloping the former Velsicol plant site for reuse and improving utility services provided by City and other sources.

Cash management policies and practices. Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements. The maturities of the investments range from 30 days to 4 years, with an average maturity of 12 average yield of 9/2 percent for the pension trust fund. The higher rate of return for the pension trust fund is attributable to the long-term character of most of its investment holdings. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

Risk management. The City is a member of the Michigan Municipal Liability and Property Pool and the Michigan Municipal Workers' Compensation Fund. Additional information on the City of Saint Louis' risk management activity can be found in Note 9 of the notes to the financial statements.

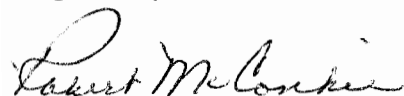
Pension and other postemployment benefits.

The City of Saint Louis participates in a defined benefit pension plan through the Municipal Employees Retirement System (MERS) and defined contribution pension plan through MERS for all full-time employees.

Additional information on the City of Saint Louis' pension arrangements can be found in Note 11 in the notes to the financial statements.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to Mayor Kubin and City Council for their support for maintaining the highest standards of professionalism in the management of the City of Saint Louis' finances.

Respectfully submitted,



Robert McConkie, City Manager



Nancy L. Roehrs, City Clerk/Treasurer

CITY OF ST. LOUIS

CITY COUNCIL

George T. Kubin	Mayor
James C. Kelly	Mayor Pro-tem
Melissa Allen	Councilman
William E. Shrum	Councilman
Jerry Church	Councilman

MANAGEMENT

Robert McConkie	City Manager
Nancy Roehrs	City Clerk/Treasurer

CITY POPULATION–2000 CENSUS
4,496

STATE EQUALIZED VALUE–2003
\$52,051,663

STATE TAXABLE VALUE–2003
\$41,585,022

Independent Auditors' Report

Members of the City Council
City of St. Louis
Gratiot County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of St. Louis, Gratiot County, Michigan (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of St. Louis, Gratiot County, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in footnote 14, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No.34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 8 through 17 and 48 through 50, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St. Louis, Gratiot County basic financial statements. The introductory section on pages 1 through 4 and the combining fund financial statements on pages 51 through 54 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Burnside & Lang, P.C.

Midland, Michigan
September 22, 2004

Managements Discussion and Analysis

As management of the City of St. Louis, we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of St. Louis for the fiscal year ended June 30, 2004. We encourage readers of the information to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are presented in whole dollars

Financial Highlights

- The assets of the City of St. Louis exceed its liabilities at the close of the most recent fiscal year by \$24,574,582. Of this amount \$3,711,905 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$37,111.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$957,149. Of this amount, \$945,382 is available for spending at the City's discretion.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$447,865 or 28.5% of the total General Fund expenditures.
- The City's total debt decreased by \$154,900.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of St. Louis's basic financial statements. The City's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of St. Louis finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, community and economic development, recreation and culture. The business-type activities of the City include operation of water and sewer systems and electric distribution system.

The government-wide financial statements include not only the City of St. Louis itself, (known as the primary government), but also a legally separate downtown development authority for which the City of St. Louis is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. The St. Louis Downtown Development Authority, although a separate legal entity, functions for all practical purposes as a department of the primary government.

The government wide financial statements can be found on pages 18 and 19 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of St. Louis, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of St. Louis can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements; however, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of St. Louis maintains 12 individual governmental funds. Information is reported separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund and the Local Street Fund, all of which are considered to be major

funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of St. Louis adopts an annual appropriated budget for its General Fund and other major governmental funds. A budgetary comparison statement has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 20 through 23 of this report.

Proprietary Funds. The City of St. Louis maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City of St. Louis maintains five individual enterprise funds. Information is reported separately in the proprietary fund statement of net assets and in the proprietary fund statement of revenue, expenses, and changes in fund net assets. The Water & Sewer Fund and the Electric Fund, which are considered to be major funds, present individual fund information. Data from the other three proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of *combining statements* elsewhere in this report.

The city uses an internal service fund to account for its fleet of vehicles. Information is reported separately along with the proprietary fund statement of net assets and in the proprietary fund statement of revenue, expenses, and changes in fund net assets. Because the services provided by the Motor Pool Fund predominantly benefit governmental rather than business type functions, they have been included within *governmental activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 24 through 26 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of St. Louis's own programs. The accounting for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 27 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 47 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report provides certain *required supplementary information* concerning the City of St. Louis. Required supplementary information can be found on pages 48 through 50 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and non-major enterprise funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 51 through 54 of this report.

Government-wide Financial Analysis

The following summaries provide a perspective of financial information of the City as a whole.

City of St. Louis Net Assets

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
Assets:			
Current and other assets	\$1,441,319	\$3,974,590	\$5,415,909
Capital assets	3,897,627	19,390,570	23,288,197
Total assets	5,338,946	23,365,160	28,704,106
Long term liabilities outstanding	1,114,518	2,310,000	3,424,518
Other liabilities	355,759	349,247	705,006
Total liabilities	1,470,277	2,659,247	4,129,524
Net assets:			
Invested in capital assets, net of related debt	2,887,023	17,080,570	19,967,593
Restricted	366,760	528,324	895,084
Unrestricted	614,886	3,097,019	3,711,905
Total net assets	\$3,868,669	\$20,705,913	\$24,574,582

City of St Louis
Change in Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total 2004
Revenues:			
Program Revenues:			
Charges for Services	\$302,178	\$5,222,667	\$5,524,845
Operating Grants & Contributions	879,378	782,567	1,661,945
Capital Grants & Contributions	2,681		2,681
General Revenues:			
Property Taxes	597,062		597,062
State Aid	558,337		558,337
Other	105,141	24,920	130,061
Transfers	252,893	-228,570	24,323
Total Revenues & Transfers	2,697,670	5,801,584	8,499,254
Expenses:			
General Government	544,193		544,193
Public Safety	630,001		630,001
Public Works	1,070,563		1,070,563
Community & Economic Development	394,083		394,083
Recreation & Culture	218,412		218,412
Interest & Fiscal Charges	53,644		53,644
Electric		2,660,829	2,660,829
Water & Sewer		1,603,211	1,603,211
Other Programs		1,287,207	1,287,207
Total Expenses	2,910,896	5,551,247	8,462,143
Increase (decrease) in net assets	(213,226)	250,337	37,111
Net Assets - July 1	4,081,895	20,455,576	24,537,471
Net Assets - June 30	3,868,669	20,705,913	24,574,582

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of St. Louis, assets exceed liabilities by \$24,574,582 at the close of the fiscal year.

By far the largest portion of the City of St. Louis's net assets (81%) reflect its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate their liabilities.

An additional portion of the City's net assets (\$895,084) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$3,711,905) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the fiscal year, the City of St. Louis is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business type activities. The same situation held true for the prior fiscal year.

The City's net assets increased \$37,111 during the current fiscal year. Much of this increase can be attributed to the amounts paid for electricity purchased over revenue generated in Electric Utility charges.

Governmental Activities

Governmental activities net assets decreased by \$213,226 during the current fiscal year. Much of this decrease is a result of completed capital projects during the year. The City's Parking Lot Improvements Project and Street Improvement Program during the fiscal year account for nearly all of the decrease in net assets.

Business-type activities

Business type activities increased the City's net assets by \$250,337 during the current fiscal year. This is primarily due to addition of the new Gibson Substation primarily to serve the Prison and Industrial area of the City.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$957,149. A key element in the decrease of \$213,226, as mentioned earlier, is the City's Parking Lot Improvements Project and Street Improvement Program which accounted for nearly all of the decrease in net assets of the governmental funds.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$447,865, while the total fund balance reached \$459,632. As a measure of the General Funds liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 25 percent of the total general fund expenditures, while the total fund balance represents 25.7 percent of that same amount.

Fund balance of the City's General Fund increased by \$99,276 during the current fiscal year. Key factor in this growth are as follows:

- Sale of a City owned house
- Conservative spending.

Fund balances in the Major and Local Street Funds decreased \$18,861 and \$65,539 respectively during the current fiscal year. The major reason for this decrease is the aggressive street reconstruction program undertaken by the City during the fiscal year. Portions of Michigan Avenue and Short Street were reconstructed. In addition the City made local match to a County Road Commission project to reconstruct Madison Road.

The fund balances of the debt service funds of the City decreased a total of \$5,234 during the current fiscal year. General Fund and other special revenue funds of the City transfer amounts necessary to pay current amounts due on bonded indebtedness. Fund balances in the bond debt funds are adequate to service short term needs as they arise.

A Parking Improvements Capital Projects Fund was established to account for funds dedicated to a major parking lot reconstruction project in the downtown at rear entrances to stores in the central business district. The Parking Lot Improvement Fund shows a decrease in fund balance of \$291,335 for the current fiscal year. The project crossed fiscal year end June 30, 2003. Timing of expenditures occurred during the current fiscal year causing the decrease.

Proprietary Funds. The City's proprietary funds provide the same type information found in the government-wide financial statement, but in more detail.

Unrestricted net assets of the Electric Utility Fund at the end of the year amounted to \$1,810,016. The total growth in net assets for the Electric Utility Fund was \$464,302. The primary addition to assets during the current year was the Gibson Substation construction mentioned earlier in the discussion of business-type activities.

Unrestricted net assets for the Water & Sewer system operations at the end of the year amounted to \$752,177. The total reduction in net assets for the Water & Sewer Utility Fund was \$111,937. The major issue resulting in reduction of net assets for the Water & Sewer Utility Fund is use of the assets without funding a portion of the depreciation for replacement.

The reduction of net assets in the non-major proprietary funds of the Swimming Pool, Housing Commission and Solid Waste Funds of \$102,028 is due primarily to a major apartment renovation project at the Housing Commission facilities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget totaled \$107,730 and can be briefly summarized as follows:

- General Government – Unanticipated costs related to the City’s sesquicentennial celebration. Costs related to change from contracted assessor to full time assessor position. Additional unanticipated costs relating to interview and selection of a City Manager to fill a vacancy created by retirement.
- Public Safety – Legal costs and back pay and benefits resulting from reinstatement of a police officer from arbitration case, as well as overtime costs while case was pending.
- Capital outlay – Last minute cost overruns related to the Parking Lot Construction Project and unanticipated project to acquire property under a loan from the Michigan Economic Development Authority – Urban Land Assembly Program.

Capital Asset and Debt Administration

Major capital asset events during the current fiscal year include the following:

- Management has elected to utilize the transition option in the implementation of GASB Statement No. 34 and plans to capitalize the value of its network of streets in its June 30, 2005 financial statements.
- Gateway Grant – the City of St. Louis received a \$240,000 CDBG Gateway Grant from the MEDC to use towards a \$750,000 upgrade of two downtown parking lots and one alleyway area. Improvements made included new Victorian lighting, landscaping, resurfacing, tree plantings, etc. Contracted construction costs totaled \$525,350.
- BRA Project – in cooperation with the County-wide Brownfield Redevelopment Authority, the City agreed to allow City tax capture to assist in paying back the developer of St. Louis Hydro-Spray Car Wash for his eligible environmental cleanup activities on the project.
- Enhancement Grant for M-46 – MDOT granted the City of St. Louis \$344,000 to enhance three blocks of M-46 in the downtown area. Improvements included new sidewalks, Victorian lighting, stamped concrete, benches, flower beds, garbage cans, etc. City purchased street lamps and was reimbursed by MDOT. Local Mt. Pleasant TSC provided required 25% match and City provided labor for electrical work.
- DDA Tree Replacement – all trees on North Mill Street were replaced by the St. Louis DDA at a cost of \$7,000. A DNR tree-planting grant was used for \$3,000 of this project.
- MSHDA Rental Rehab – two new second story apartments were created at 222 North Mill Street with the help of a MSHDA grant. The building’s owner contributed 25% of the cost of the project up front as his match. The City was not required to fund any portion of this project.
- MSHDA HOME ADR – two single family homes were rehabilitated and prepared for resale with the help of a grant for \$176,000. The City was responsible for administering the grant, but no financial match was required.
- Swimming Pool Project – This ongoing project will use a DNR LWCF grant of \$90,000 towards the rebuilding of the W.T. Morris Memorial Swimming Pool.

Donations received towards this project from local community members totaled \$70,000 as well. City funds will be used to pay the balance of the project cost of \$350,000.

- Michigan Avenue Paving – reconstruction of this major street between State Street and Woodside Drive was completed. This was an MDOT-funded project with a local match of approximately 19%. Total project cost was approximately \$415,000.
- Madison Road Paving – the City of St. Louis contributed \$30,250 toward this road reconstruction project with drainage improvements, as Madison Road serves as an entryway to the City as well as bordering the new Hidden Oaks Subdivision development. This project included an entire mile of Madison Road.
- Gibson Substation – construction of an additional electric substation was ongoing through the fiscal year. This \$1.165 million project was designed and constructed to serve three State Correctional Facilities and industrial customers with capacity for the future. A \$400,000 contribution came from the State of Michigan with the remainder paid from the City Electric Fund.

Additional information on the City's capital assets can be found in Note 4 on pages 37 and 38 of this report.

Fiscal year ending June 30, 2004 is the first year in which the City of Saint Louis has presented financial information in compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34. The City did not restate financial statements for fiscal year ending June 30, 2003; therefore, government-wide financial information and comparison between the two fiscal years end is not available.

Long-Term Debt

At the end of the current fiscal year, the City had a total bonded debt outstanding of \$3,320,604. Of this amount \$553,295 is secured by the full faith and credit of the City, \$20,000 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt represents bonds secured solely by specific revenue sources (i.e. revenue bonds or leases) or contracts secured by property.

The City's total debt decreased by \$154,900 during the current fiscal year. The key factors in this decrease were the City entering into a land contract for the purchase of property (\$51,519) and annual installments on bonds of \$206,419. Additional information on the City's long term debt can be found in Note 6 of the Notes to Financial Statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City at the fiscal year end was 6.5 percent, which is a decrease from 6.7 percent from the year prior. This compares favorably with the State's average unemployment rate of 6.8 percent; however, somewhat less

favorable to the National average of 5.8 percent for the same period ending. As of this writing; however, although the National average unemployment rate has improved to 5.2 percent, both the State average (6.8%) and City (9.2%) have suffered worsening employment conditions.

- The occupancy rate of the City's central business district has remained steady at 90% for the past three years.

During the current fiscal year, the unreserved fund balance in the General Fund increased to \$447,865. The City has projected a balanced budget without necessity for appropriation of any of the fund balance during the upcoming fiscal year. It is intended that the available fund balance will be sufficient to meet any unforeseen changes in the local economy from the time the budget was prepared through the 2004-05 fiscal year.

Water, sewer and electric rates will be reviewed in detail during the 2004-05 fiscal year. A sewer system needs study has been undertaken and results are expected in mid fiscal year 2004-05. Utility rates have not been adjusted since early 2002. Both of these reports will provide for better management of the utility systems.

Requests for Information

This financial report is designed to provide a general overview of the City of Saint Louis finances for all those with an interest in the City's finances. Question concerning any of the information provided in this report or requests for additional financial information should be addressed to: Nancy Roehrs, City Clerk, City of Saint Louis, 108 W. Saginaw Street, Saint Louis, Michigan 48880.

CITY OF ST. LOUIS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
ASSETS				
Cash and cash equivalents	\$ 847,499	\$ 2,378,493	\$ 3,225,992	\$ 32,560
Investments	176,424	161,940	338,364	-
Accounts receivable, net	840	422,696	423,536	-
Taxes receivable, net	1,573	-	1,573	-
Other receivables, net	82,348	25,965	108,313	-
Due from other funds	1,000	2,201	3,201	-
Due from other governmental units	289,404	-	289,404	-
Inventory	42,231	340,764	382,995	-
Prepaid items	-	11,058	11,058	-
Restricted cash	-	559,845	559,845	-
Unamortized bond discount	-	13,088	13,088	-
Capital assets:				
Land	2,376,732	177,586	2,554,318	-
Buildings and improvements, net	1,029,518	1,896,002	2,925,520	-
Equipment and vehicles, net	491,377	67,159	558,536	-
Infrastructure, net	-	15,547,956	15,547,956	-
Construction in progress	-	1,701,867	1,701,867	-
Total capital assets	3,897,627	19,390,570	23,288,197	-
Total assets	5,338,946	23,306,620	28,645,566	32,560
LIABILITIES				
Accounts payable	256,058	141,781	397,839	126
Accrued expenses	33,281	98,461	131,742	-
Deposits and other liabilities	550	49,027	49,577	-
Deferred revenue	65,870	1,438	67,308	-
Long-term liabilities:				
Portion due or payable within one year:				
Bonds and contracts payable	112,500	145,000	257,500	-
Compensated absences	25,979	-	25,979	-
Portion due or payable after one year:				
Bonds and contracts payable	898,104	2,165,000	3,063,104	-
Compensated absences	77,935	-	77,935	-
Total liabilities	1,470,277	2,600,707	4,070,984	126
NET ASSETS				
Invested in capital assets, net of related debt	2,887,023	17,080,570	19,967,593	-
Restricted for:				
Streets, roads and bridges	195,429	-	195,429	-
Debt service	16,980	523,319	540,299	-
Cemetery	154,351	-	154,351	-
Unrestricted	614,886	3,102,024	3,716,910	32,434
Total net assets	\$ 3,868,669	\$ 20,705,913	\$ 24,574,582	\$ 32,434

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit - DDA
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental:								
General government	\$ 544,193	\$ 67,643	\$ -	\$ -	\$ (476,550)		\$ (476,550)	
Public safety	630,001	32,752	-	-	(597,249)		(597,249)	
Public works	1,070,563	-	513,068	2,681	(554,814)		(554,814)	
Community and economic development	394,083	57,222	324,284	-	(12,577)		(12,577)	
Recreation and culture	218,412	144,561	42,026	-	(31,825)		(31,825)	
Interest and fiscal charges	53,644	-	-	-	(53,644)		(53,644)	
Total governmental activities	<u>2,910,896</u>	<u>302,178</u>	<u>879,378</u>	<u>2,681</u>	<u>(1,726,659)</u>		<u>(1,726,659)</u>	
Business-type:								
Electric	2,660,829	3,355,261	-	-		\$ 694,432	694,432	
Sewer and water	1,603,211	1,482,578	-	-		(120,633)	(120,633)	
Other programs	1,287,207	384,828	782,567	-		(119,812)	(119,812)	
Total business-type activities	<u>5,551,247</u>	<u>5,222,667</u>	<u>782,567</u>	<u>-</u>		<u>453,987</u>	<u>453,987</u>	
Total Primary Government	<u>\$ 8,462,143</u>	<u>\$ 5,524,845</u>	<u>\$ 1,661,945</u>	<u>\$ 2,681</u>	<u>(1,726,659)</u>	<u>453,987</u>	<u>(1,272,672)</u>	
Component units:								
Downtown Development Authority	<u>\$ 15,635</u>	<u>\$ -</u>	<u>\$ 2,500</u>	<u>\$ -</u>				\$ (13,135)
General revenues:								
Property taxes, levied for general purposes					597,062	-	597,062	25,693
State aid					558,337	-	558,337	-
Investment earnings					23,331	24,920	48,251	120
Miscellaneous					81,810	-	81,810	-
Transfers					252,893	(228,570)	24,323	(24,323)
Total general revenues and transfers					<u>1,513,433</u>	<u>(203,650)</u>	<u>1,309,783</u>	<u>1,490</u>
Change in net assets					<u>(213,226)</u>	<u>250,337</u>	<u>37,111</u>	<u>(11,645)</u>
Net assets-beginning					4,081,895	20,455,576	24,537,471	44,079
Net assets-ending					<u>\$ 3,868,669</u>	<u>\$ 20,705,913</u>	<u>\$ 24,574,582</u>	<u>\$ 32,434</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2004

	General	Major Street	Local Street	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 285,809	\$ 118,458	\$ 138,438	\$ 148,070	\$ 690,775
Investments	40,128	-	-	136,296	176,424
Accounts receivable, net	840	-	-	-	840
Taxes receivable, net	1,573	-	-	-	1,573
Assessments receivables, net	-	-	-	6,883	6,883
Due from other funds	1,000	-	-	-	1,000
Due from other governmental units	228,800	44,074	16,530	-	289,404
Inventories	11,767	-	-	30,464	42,231
Other receivables	75,293	122	-	-	75,415
Total assets	\$ 645,210	\$ 162,654	\$ 154,968	\$ 321,713	\$ 1,284,545
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 100,542	\$ 56,625	\$ 62,270	\$ 9,566	\$ 229,003
Accrued expenses	25,499	1,100	2,198	3,176	31,973
Due to other funds	-	-	-	-	-
Deposits and other liabilities	550	-	-	-	550
Deferred revenue	58,987	-	-	6,883	65,870
Total liabilities	185,578	57,725	64,468	19,625	327,396
Fund balances:					
Reserved for:					
Inventories	11,767	-	-	-	11,767
Unreserved and undesignated	447,865	104,929	90,500	302,088	945,382
Total fund balances	459,632	104,929	90,500	302,088	957,149
Total liabilities and fund balances	\$ 645,210	\$ 162,654	\$ 154,968	\$ 321,713	\$ 1,284,545

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balances for governmental funds (Exhibit 4) \$ 957,149

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	2,376,732	
Buildings and improvements, net of \$411,511 accumulated depreciation		1,029,518	
Equipment and vehicles, net of \$1,634,763 accumulated depreciation		491,377	
Total capital assets			3,897,627

The internal service funds (see Exhibit 6) are used by the City to charge the cost of operating a motor pool to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The internal service fund's unrestricted net assets are:

128,411

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2004 are:

Installment purchase contract	\$	(53,285)	
Land contract payable		(51,519)	
Notes and bonds payable		(905,800)	
Compensated absences		(103,914)	(1,114,518)

Total net assets of governmental activities (Exhibit 2)	\$	3,868,669	
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The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended June 30, 2004

	General	Major Street	Local Street	Other Governmental Funds	Total
REVENUES					
Property taxes and related fees	\$ 597,062	\$ -	\$ -	\$ -	\$ 597,062
Licenses and permits	18,805	-	-	-	18,805
Federal aid	56,715	-	-	138,207	194,922
State aid	830,767	260,328	97,262	8,583	1,196,940
Charges for services	3,737	-	-	22,395	26,132
Interest and dividends	8,066	720	1,176	13,369	23,331
Rents and royalties	84,258	-	-	30,540	114,798
Fines and forfeits	10,020	-	-	106,777	116,797
Special assessments, net	-	-	-	2,681	2,681
Sale of assets	57,222	-	-	-	57,222
Donations	2,000	-	-	20,716	22,716
Miscellaneous	74,603	14,732	2,539	9,289	101,163
Total revenues	<u>1,743,255</u>	<u>275,780</u>	<u>100,977</u>	<u>352,557</u>	<u>2,472,569</u>
EXPENDITURES					
General government	443,769	-	-	51,933	495,702
Public safety	617,460	-	-	-	617,460
Public works	124,864	248,923	227,234	469,542	1,070,563
Community and economic development	393,783	-	-	300	394,083
Recreation and culture	63,683	-	-	142,555	206,238
Capital outlay	89,662	-	-	19,528	109,190
Debt service	55,063	-	-	95,482	150,545
Total expenditures	<u>1,788,284</u>	<u>248,923</u>	<u>227,234</u>	<u>779,340</u>	<u>3,043,781</u>
Excess (deficiency) of revenues over expenditures	<u>(45,029)</u>	<u>26,857</u>	<u>(126,257)</u>	<u>(426,783)</u>	<u>(571,212)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from debt obligations	52,000	-	-	-	52,000
Transfers-in	237,583	-	60,718	145,588	443,889
Transfers-out	(145,278)	(45,718)	-	-	(190,996)
Total other financing sources and uses	<u>144,305</u>	<u>(45,718)</u>	<u>60,718</u>	<u>145,588</u>	<u>304,893</u>
Net change in fund balances	<u>99,276</u>	<u>(18,861)</u>	<u>(65,539)</u>	<u>(281,195)</u>	<u>(266,319)</u>
Fund balances-beginning	<u>360,356</u>	<u>123,790</u>	<u>156,039</u>	<u>583,283</u>	<u>1,223,468</u>
Fund balances-ending	<u>\$ 459,632</u>	<u>\$ 104,929</u>	<u>\$ 90,500</u>	<u>\$ 302,088</u>	<u>\$ 957,149</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
June 30, 2004

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(266,319)
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$109,190) exceeded depreciation (\$73,206) in the current period.		35,984
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Debt issued:			
Land contract	\$	(52,000)	
Repayments:			
Installment purchase contract		16,020	
Land contract		481	
Notes and bonds		80,400	44,901

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.

Compensated absences		21,868
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The internal service fund (See Exhibit 7) is used by the City to charge the costs of operating a motor pool to individual funds. The net revenue of the internal service fund is reported with governmental activities.

Change in net assets of governmental activities (Exhibit 3)	\$	(213,226)
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The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
PROPRIETARY FUND STATEMENT OF NET ASSETS
June 30, 2004

	Enterprise Funds				Motor Pool Internal Service Fund
	Electric Fund	Sewer and Water Fund	Other Enterprise Funds	Total	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,292,849	\$ 523,538	\$ 562,106	\$ 2,378,493	\$ 156,724
Investments	-	161,940	-	161,940	-
Accounts receivable, net	284,001	112,400	26,295	422,696	-
Other receivable:	-	15,144	10,821	25,965	50
Due from other funds	2,201	-	58,540	60,741	-
Inventory	293,558	47,206	-	340,764	-
Prepaid items	-	-	11,058	11,058	-
Total current assets	1,872,609	860,228	668,820	3,401,657	156,774
Noncurrent assets:					
Restricted cash	258,917	300,928	-	559,845	-
Unamortized bond discoun	-	13,088	-	13,088	-
Capital assets:					
Land and improvement	127,617	9,139	40,830	177,586	-
Buildings and improvements, ne	499,638	16,454	1,379,910	1,896,002	-
Equipment, net	-	17,726	49,433	67,159	373,338
Infrastructure, net	3,222,313	12,325,643	-	15,547,956	-
Construction in progress	1,153,577	548,290	-	1,701,867	-
Total noncurrent assets	5,262,062	13,231,268	1,470,173	19,963,503	373,338
Total assets	7,134,671	14,091,496	2,138,993	23,365,160	530,112
LIABILITIES					
Current liabilities:					
Accounts payable	33,452	92,592	15,737	141,781	27,055
Accrued expenses	29,141	23,542	45,778	98,461	1,308
Deposits and other liability:	24,338	12,188	12,501	49,027	-
Due to other funds	-	-	58,540	58,540	-
Deferred revenue	-	-	1,438	1,438	-
Bonds and contracts payable	50,000	95,000	-	145,000	-
Total current liabilities	136,931	223,322	133,994	494,247	28,363
Noncurrent liabilities					
Bonds and contracts payable	900,000	1,265,000	-	2,165,000	-
Total noncurrent liabilities	900,000	1,265,000	-	2,165,000	-
Total liabilities	1,036,931	1,488,322	133,994	2,659,247	28,363
NET ASSETS					
Invested in capital assets, net of related debt	4,053,145	11,557,252	1,470,173	17,080,570	373,338
Restricted for debt obligations	234,579	288,740	-	523,319	-
Unrestricted	1,810,016	757,182	534,826	3,102,024	128,411
Total net assets	\$ 6,097,740	\$ 12,603,174	\$ 2,004,999	\$ 20,705,913	\$ 501,749

The accompanying notes are an integral part of these financial statements.

CTTY OF ST. LOUIS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Enterprise Funds				Motor Pool Internal Service Fund
	Electric Fund	Sewer and Water Fund	Other Enterprise Funds	Total	
OPERATING REVENUES					
Charges for services	\$ 3,198,079	\$ 1,436,974	\$ 380,622	\$ 5,015,675	\$ 188,215
Miscellaneous	36,072	26,542	1,435	64,049	994
Total operating revenues	3,234,151	1,463,516	382,057	5,079,724	189,209
OPERATING EXPENSES					
Salaries and wages	283,452	419,235	111,643	814,330	40,208
Employee benefits	116,427	187,313	49,090	352,830	22,213
Supplies	96,489	58,478	4,100	159,067	1,257
Dues and fees	5,573	835	-	6,408	-
Postage	3,775	8,120	-	11,895	-
Gas and fuel	3,897	237	-	4,134	22,675
Uniforms	1,333	2,317	-	3,650	-
Contracted services	41,735	79,784	181,568	303,087	-
Communications	4,366	7,605	3,979	15,950	-
Travel, conferences and workshops	3,515	2,734	4,188	10,437	-
Insurance	14,989	23,573	15,045	53,607	18,161
Utilities	20,624	239,621	69,093	329,338	-
Energy purchases	1,457,177	-	-	1,457,177	-
Energy transmission	340,870	-	-	340,870	-
Street lighting	42,192	-	-	42,192	-
Repairs and maintenance	21,460	49,639	129,082	200,181	37,286
Equipment rental	34,501	40,488	31,486	106,475	7,576
Miscellaneous	3,148	957	13,599	17,704	380
Education and training	4,000	398	-	4,398	-
Depreciation	161,306	407,316	178,306	746,928	91,089
Total operating expenses	2,660,829	1,528,650	791,179	4,980,658	240,845
Operating income (loss)	573,322	(65,134)	(409,122)	99,066	(51,636)
NONOPERATING REVENUES (EXPENSES)					
Donations from public and private sources	-	-	41,848	41,848	-
Operating and capital grants	-	-	740,719	740,719	-
Housing assistance payments	-	-	(496,028)	(496,028)	-
Investment earnings	13,453	8,696	2,771	24,920	1,546
Other nonoperating revenue	121,110	18,841	3,097	143,048	-
Interest expense	-	(74,561)	-	(74,561)	-
Gain (loss) on sale of assets	-	221	(326)	(105)	430
Total nonoperating revenue (expenses)	134,563	(46,803)	292,081	379,841	1,976
Income (loss) before capital grants and transfers	707,885	(111,937)	(117,041)	478,907	(49,660)
TRANSFERS					
Transfers in	-	-	15,013	15,013	-
Transfers (out)	(243,583)	-	-	(243,583)	-
Changes in net assets	464,302	(111,937)	(102,028)	250,337	(49,660)
Total net assets-beginning	5,633,438	12,715,110	2,107,028	20,455,576	551,409
Total net assets-ending	\$ 6,097,740	\$ 12,603,173	\$ 2,005,000	\$ 20,705,913	\$ 501,749

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
PROPRIETARY FUND STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

	Enterprise Funds				Motor Pool
	Electric	Sewer and Water	Other Enterprise	Total	Internal Service
	Fund	Fund	Funds		Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 3,204,682	\$ 1,447,701	\$ 364,609	\$ 5,016,992	\$ 188,215
Payments to suppliers	(2,117,654)	(398,796)	(400,267)	(2,916,717)	(61,675)
Payments to employees	(398,176)	(603,815)	(197,355)	(1,199,346)	(62,508)
Internal activity-payments from (to) other funds	(36,519)	(38,258)	(2,513)	(77,290)	-
Other receipts	36,072	26,542	1,435	64,049	994
Net cash provided (used) by operating activities	688,405	433,374	(234,091)	887,688	65,026
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	-	15,013	15,013	-
Transfers (out)	(243,583)	-	-	(243,583)	-
Nonoperating revenue	121,110	19,062	275,009	415,181	-
Customer deposits	12,354	204	(973)	11,585	-
Net cash provided by noncapital financing activities	(110,119)	19,266	289,049	198,196	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases and construction of capital assets	(218,473)	(394,737)	(32,172)	(645,382)	(50,262)
Proceeds from capital grants	-	-	27,845	27,845	-
Principal paid on capital debt	(20,000)	(90,000)	-	(110,000)	-
Interest paid on capital debt	(42,747)	(74,748)	-	(117,495)	-
Net cash used by capital and related financing activities	(281,220)	(559,485)	(4,327)	(845,032)	(50,262)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	13,453	8,696	2,778	24,927	1,546
Net increase in cash and cash equivalents	310,519	(98,149)	53,409	265,779	16,310
Balances-beginning of the year	1,241,247	922,615	522,127	2,685,989	140,414
Balances-end of the year	\$ 1,551,766	\$ 824,466	\$ 575,536	\$ 2,951,768	\$ 156,724
Displayed as:					
Cash and cash equivalents	\$ 1,292,849	\$ 523,538	\$ 562,106	\$ 2,378,493	\$ 156,724
Restricted cash	258,917	300,928	-	559,845	-
	\$ 1,551,766	\$ 824,466	\$ 562,106	\$ 2,938,338	\$ 156,724
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 573,322	\$ (65,134)	\$ (409,122)	\$ 99,066	\$ (51,636)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	161,306	407,316	178,306	746,928	91,089
Change in assets and liabilities:					
Receivables, net	6,603	10,727	(2,860)	14,470	-
Inventory	43,510	(2,358)	-	41,152	-
Prepaid items	-	-	(1,812)	(1,812)	-
Accounts payable	(98,039)	80,090	(4,594)	(22,543)	-
Accrued expenses	1,703	2,733	5,991	10,427	-
Net cash provided (used) by operating activities	\$ 688,405	\$ 433,374	\$ (234,091)	\$ 887,688	\$ 39,453

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2004

	Agency Funds		
	Tax Collections	General Agency	Total
ASSETS			
Cash and cash equivalents	\$ 1,000	\$ 4,019	\$ 5,019
Other receivables	-	1,358	1,358
Total assets	<u>1,000</u>	<u>5,377</u>	<u>6,377</u>
LIABILITIES			
Due to other funds	1,000	2,201	3,201
Other liabilities	-	3,176	3,176
Total liabilities	<u>1,000</u>	<u>5,377</u>	<u>6,377</u>
NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

A. Reporting Entity

Located in Gratiot County, Michigan, St. Louis was settled in 1853 along the banks of the Pine River, became a village in 1868, and was incorporated in 1891 as the City of St. Louis. Organized under Michigan's Comprehensive Home Rule City Act, the City of St. Louis, is governed by a single ward, four member elected City Council and the Mayor. The Mayor is elected by the City at large and the City Council selects the mayor Pro Tem. The City Manager is appointed by the Council to administer the business of the City. The City of St. Louis provides the following services to approximately 4,500 residents as authorized by its charter; public safety (police and fire), highways and streets, electric, water, sewer, sanitation, recreation, public improvements, zoning planning and general administrative services.

The accompanying financial statements present the City and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

The following component unit is reported within the "component unit" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the unit is financially accountable, or its relationship with the City is such that exclusion would cause the units financial statements to be misleading or incomplete.

Downtown Development Authority—The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority is comprised of individuals from the management of the City as well as residents who are appointed by the City Council. In addition, the Authority's budget is approved by the City Council. The Authority does not issue separate financial statements. Detail information can be obtained by contacting the City Clerk.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Blended Component Unit

St. Louis Housing Commission - The Commission functions to provide subsidized housing to individuals of low and moderate income within the City. The commission operates an 80 unit housing project and administers a certificate program funded by the U.S. Department of Housing and Urban Development (HUD). Commissioners are appointed by City Council. The Commission prepares separate financial statements for submission to HUD, which can be obtained by writing Ms. Kerry Marsh, Director; P.O. Box 117; St. Louis, MI 48880.

Joint Ventures

Mid-Michigan Community Fire Board - The City is a member of the Mid-Michigan Community Fire Board (the "Fire Board"), which is a joint venture between the City of St. Louis and the Townships of Bethany, Pine River and Jasper. The governing board is comprised of 5 members consisting of the Supervisor of each of the Townships, the City Manager and City Clerk.

Each unit is responsible for funding its required local contribution to cover operational deficits based on a formula established by the Fire Board. The City maintains the accounting records for the Mid-Michigan Community Fire Board. Separate financial statements for the Fire Board can be obtained at the City of St. Louis administration office.

Gratiot County Central Dispatch Authority - The City is a member of the Gratiot County Central Dispatch Authority, which is a joint venture between Gratiot County, the State of Michigan, the Cities of Alma, St. Louis, Ithaca, and Breckenridge. The Authority provides central dispatch services for police and fire services in Gratiot County. The governing board is comprised of 11 members. Gratiot County appoints six board members consisting of the County Sheriff, a representative from the area townships, a representative from the area villages, one county citizen, and two county commissioners. Each of the other units appoint one board member. The Authority has responsibility for preparing the annual budget, which is approved by Gratiot County, and to carry out all activities of the Authority.

The Authority receives funding from telephone surcharge fees and local contributions. A formula has been established to allocate the local contributions. The financial activities of the Gratiot County Central Dispatch Authority are reported in Gratiot County's financial statements as a component unit. The City has no equity interest in the Authority. Copies of Gratiot County's financial statements can be obtained by writing to Ms. Mary Sullivan, Gratiot County Treasurer; P.O. Box 437; Ithaca, MI 48847.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mid-Michigan Area Cable Communications Consortium - The City is a member of the Mid-Michigan Area Cable Communications Consortium, which is a joint venture between nine mid-Michigan communities with cable franchised agreements granted to Charter Communications. The nine communities include the Cities of Alma, Clare, Ithaca, Mt. Pleasant, and St. Louis, the Villages of Breckenridge and Shepherd, and the Townships of Pine River and Union. The Consortium is responsible for developing and monitoring the enforcement of the cable ordinance, negotiating and monitoring of cable franchise agreements, and, to the extent permitted by federal law, regulate cable rates. In the future, the consortium will be responsible for the operation of public education and governmental access channels. Each community is permitted to appoint two members of the governing board. The Consortium has responsibility for preparing the annual budget.

A formula has been established to allocate the local contributions. There were no local contributions during the fiscal year ended June 30, 2004. The financial activities of the Mid-Michigan Area Cable Communications Consortium are reported in the financial statements of the City of Mt. Pleasant. The Consortium operates on a calendar year. There are no separate financial statements produced for the Consortium. Copies of the City of Mt. Pleasant financial statements can be obtained by writing to the City of Mt. Pleasant; 401 N. Main; Mt. Pleasant, MI 48860.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contribution that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgements are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenue susceptible to accrual include property taxes, state revenue sharing and interest.

The City property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

The 2003 taxable valuation of the City totaled \$16.2 million, on which ad valorem taxes levied consisted of 13.5916 mills for City operating purpose. These amounts are recognized in the General Fund as property taxes and related fees.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government reports the following major funds:

The General Fund is the governments primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the receipt and expenditures of State motor fuel taxes which are earmarked by law for major street and highway purposes.

The Local Street Fund is used to account for the receipt and expenditure of State motor fuel taxes which are earmarked by law for local street and highway purposes.

The government reports the following major proprietary funds:

The Electric Fund is used to record the revenues and expenses for the operation of an electricity utility system. Capital assets are recorded within the fund and depreciation is charged.

The Sewer and Water Fund is used to record the revenues and expenses for the operation of sewer and water systems. Capital assets are recorded within the fund and depreciation is charged.

Additionally, the government reports the following fund types:

The Motor Pool Fund is an internal service fund, which accounts for major machinery and equipment purchases and maintenance to provide services to other departments of the government on a cost reimbursement basis.

The Current Tax Collection Fund is used to account for resources held by the City in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The sewer and water fund also recognizes the portion of tap fees intended to recover current costs as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds”. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds”.

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets—Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred, if any, during the construction of capital assets of business-type activities is included in the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Sewer and water systems	50 to 75 years
Office equipment	5 to 10 years
Computer equipment	3 to 5 years

Compensated Absences (Vacation and Sick Leave)—Sick leave is earned at the rate of 10 hours per month, to be accumulated until a maximum of 500 hours is reached, and is kept to the employees credit. If at the end of a fiscal year, an employee has accumulated sick leave greater than 500 hours, one-half of the accumulated sick leave in excess of 500 hours is paid to the employee and the remainder is lost. Sick leave is not paid upon termination. Upon retirement, employees hired before December 20, 1994, are entitled to be paid one half of any accumulated unused sick leave at the rate of pay prevailing at the time of such retirement. This liability is measured using the vesting method as described in GASB Statement #16.

Employees receive vacation time on July 1st based on prior years service. A maximum of 200 hours can be earned during the prior year. Added to earned vacation time is a maximum of 40 hours carryover of any prior year unused vacation time. Except for a 40 hour carryover, vacation time is to be used within the year received and is paid to employees upon termination.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if any, of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level for the General Fund and at the fund level for all other governmental fund types.

Excess of Expenditures Over Appropriations in Budgeted Funds—During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund—City Commission	\$ 43,500	\$ 48,078
General Fund—Elections	3,100	3,345
General Fund—Buildings and Grounds	169,790	184,848
General Fund—All Other General Government	15,575	15,940
General Fund—Community Planning	19,800	20,301
General Fund—Capital Outlay, General	29,375	65,257

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Council has designated three banks for the deposit of City funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Funds	Fiduciary Funds	Total Primary Government	Component Unit
Cash and Cash Equivalents	\$ 847,499	\$2,378,493	\$ 5,019	\$ 3,231,011	\$ 32,560
Investments	176,424	161,940	-	338,364	-
Restricted Assets	-	559,845	-	559,845	-
Total	\$ 1,023,923	\$ 3,100,278	\$ 5,019	\$ 4,129,220	\$ 32,560

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank Deposits (checking and savings, certificate of deposit)	\$ 3,918,063	\$ 32,560
Petty Cash and Cash on Hand	180	-
Total	\$ 3,918,243	\$ 32,560

The bank balance of the primary government deposits is \$3,716,430, of which \$300,000 is covered by federal deposit insurance. The component unit's deposit had a bank balance of \$32,560 all of which is covered by federal deposit insurance.

NOTE 4. CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 2,376,732	\$ -	\$ -	\$ 2,376,732
Capital Assets Being Depreciated				
Buildings and Improvements	1,382,129	58,900	-	1,441,029
Equipment and Vehicles	2,075,850	50,290	-	2,126,140
Subtotal	3,457,979	109,190	-	3,567,169
Less Accumulated Depreciation for				
Buildings and Improvements	369,922	41,589	-	411,511
Equipment and Vehicles	1,603,147	31,617	-	1,634,763
Subtotal	1,973,069	73,206	-	2,046,274
Net Capital Assets Being Depreciated	1,484,910	35,985	-	1,520,895
Governmental Activities Capital Assets—Net of Depreciation	\$ 3,861,642	\$ 35,985	\$ -	\$ 3,897,627

CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 167,704	\$ 9,882	\$ -	\$ 177,586
Construction in Progress	2,471,965	463,181	1,233,279	1,701,867
Capital Assets Being Depreciated				
Buildings and Improvements	5,024,288	108,155	-	5,132,443
Equipment	205,240	18,433	-	223,673
Infrastructure	20,760,046	1,233,279	-	21,993,325
Subtotal	25,989,573	1,359,867	-	27,349,441
Less Accumulated Depreciation for				
Buildings and Improvements	3,038,274	198,167	-	3,236,441
Equipment	136,671	23,248	3,404	156,515
Infrastructure	5,919,855	525,513	-	6,445,368
Subtotal	9,094,800	746,928	3,404	9,838,324
Net Capital Assets Being Depreciated	16,894,773	612,939	(3,404)	17,511,116
Business-Type Activities Capital Assets—Net of Depreciation	<u>\$ 19,534,442</u>	<u>\$ 1,086,003</u>	<u>\$ 1,229,875</u>	<u>\$ 19,390,570</u>

Depreciation expense was charged to programs of the City as follows:

Governmental Activities	
General Government	\$ 48,491
Public Safety	12,541
Recreation and Culture	12,174
Total Governmental Activities	<u>\$ 73,206</u>
Business-Type Activities	
Electric	\$ 161,306
Sewer and Water	407,316
Other Programs	178,306
Total Business-Type Activities	<u>\$ 746,928</u>

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 1,000	Agency Funds	\$ 3,201
Electric	2,201		
Total	<u>\$ 3,201</u>	Total	<u>\$ 3,201</u>

Interfund Transfers:

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
General	\$ 145,278	General	\$ 237,583
Major Street	45,718	Local Street	60,718
Electric	243,583	Cemetery	27,000
DDA	24,323	Library	19,000
		Debt Service	59,588
		Capital Project	40,000
		Swimming Pool	15,013
Total	<u>\$ 458,902</u>	Total	<u>\$ 458,902</u>

NOTE 6. LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 6. LONG-TERM DEBT (Continued)

Bond and contractual agreements can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General Obligation Bonds						
\$57,000 Bond Issue	4.65 to 5.15%	2007	\$ 25,000	\$ (5,000)	\$ 20,000	\$ 5,000
\$500,000 Bond Issue	2.00 to 4.90%	2017	500,000	(20,000)	480,000	25,000
Building Authority Bond	5.00 to 6.75%	2016	330,000	(15,000)	315,000	20,000
Special Assessment Bond	4.65 to 5.15%	2007	25,000	(5,000)	20,000	5,000
Urban Land Assembly Loan	Zero	2006	106,200	(35,400)	70,800	35,400
Purchase Contract	5.25%	2007	69,304	(16,019)	53,285	17,100
Land Contract	6%	2014	-	51,519	51,519	5,000
			<u>\$1,055,504</u>	<u>\$ (44,900)</u>	<u>\$ 1,010,604</u>	<u>\$ 112,150</u>
Business-Type Activities						
Revenue Bonds						
\$995,000 Sewer & Water	4.60 to 6.80%	2017	\$ 800,000	\$ (40,000)	\$ 760,000	\$ 40,000
\$850,000 Sewer & Water	5.00 to 5.40%	2011	650,000	(50,000)	600,000	55,000
\$995,000 Electric	3.20 to 5.10%	2017	970,000	(20,000)	950,000	50,000
			<u>\$2,420,000</u>	<u>\$ (110,000)</u>	<u>\$ 2,310,000</u>	<u>\$ 110,000</u>
Component Unit						
DDA Revenue Loan	6.7%	2004	\$ 96,393	\$ (96,393)	\$ -	\$ -

Scheduled principal maturities of long-term debt for years subsequent to June 30, 2004 are as follows:

Year Ending June 30,	Governmental Activities	Business-Type Activities
2005	\$ 112,500	\$ 145,000
2006	112,750	145,000
2007	125,535	145,000
2008	50,000	145,000
2009	50,000	145,000
Thereafter	559,819	1,585,000
Total	<u>\$ 1,010,604</u>	<u>\$ 2,310,000</u>

Interest and fiscal charges for the year totaled \$170,073, which included capitalized interest of \$41,868.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 7. SEGMENT INFORMATION

The City issued revenue bonds to finance electric, water and sewer system improvements. Summary financial information for the sewer and water departments are presented below:

Condensed Statement of Net Assets:

	Electric	Sewer and Water
Assets		
Current Assets	\$ 1,872,609	\$ 860,228
Restricted Assets	258,917	314,016
Capital Assets	5,003,145	12,917,252
Total Assets	<u>7,134,671</u>	<u>14,091,496</u>
Liabilities		
Current Liabilities	106,931	218,322
Noncurrent Liabilities	930,000	1,270,000
Total Liabilities	<u>1,036,931</u>	<u>1,488,322</u>
Net Assets		
Invested in Capital Assets	4,053,145	11,557,252
Restricted	234,579	288,740
Unrestricted	1,810,016	757,182
Total Net Assets	<u><u>\$ 6,097,740</u></u>	<u><u>\$ 12,603,174</u></u>

CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 7. SEGMENT INFORMATION (Continued)

Condensed Statement of Revenue, Expenses, and Changes in Net Assets:

	Electric	Sewer and Water
Operating Revenues	\$ 3,234,151	\$ 1,463,516
Depreciation Expense	161,306	407,316
Other Operating Expenses	2,499,523	1,121,334
Operating Income (Loss)	573,322	(65,134)
Nonoperating Revenue (Expense)		
Investment Earnings	13,453	8,696
Interest Expense	-	(74,561)
Other Income	-	19,062
Transfers	(243,583)	-
Change in Net Assets	464,302	(111,937)
Beginning Net Assets	5,633,438	12,715,110
Total Net Assets	\$ 6,097,740	\$ 12,603,173

Condensed Statement of Cash Flows:

	Electric	Sewer and Water
Net Cash Provided by (Used in)		
Operating Activities	\$ 688,405	\$ 433,374
Noncapital Financing Activities	(110,119)	19,266
Capital and Related Financing Activities	(281,220)	(559,485)
Investing Activities	13,453	8,696
Net Increase (Decrease)	310,519	(98,149)
Beginning Cash and Cash Equivalents	1,241,247	922,615
Ending Cash and Cash Equivalents	\$ 1,551,766	\$ 824,466

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 8. RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

	Electric	Sewer and Water
Operating Activities		
Improvement and Replacement Accounts	\$ 234,579	\$ 288,740
Customer Deposits	24,338	12,188
Total Restricted Assets	<u>\$ 258,917</u>	<u>\$ 300,928</u>

NOTE 9. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. The City manages risk through the purchase of commercial insurance.

Liability, vehicle physical damage, and property and crime - The City is a member of the Michigan Municipal Liability and Property Pool, which is an association organized to purchase commercial insurance for protection against loss for Michigan cities, counties, townships and special service governments. The City is insured up to the following limits: Liability - \$5,000,000, vehicle physical damage - \$5,000,000 and property and crime - \$5,000,000, subject to deductibles of \$1,000, \$100 - \$250 and \$1,000, respectively. The City is not subject to supplemental premium assessments by the association.

Workers' compensation - The City purchases coverage through the Michigan Municipal Workers' Compensation Fund. The Fund is authorized by State law to provide its members with coverage required by the Workers' Disability Compensation Act. Claims are subject to a maximum limit of \$500,000 per occurrence.

NOTE 10. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 10. DEFERRED COMPENSATION PLAN (Continued)

The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (City) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

A summary of changes in the plan's investment account during the year ended June 30, 2004, follows:

Balance – July 1, 2003	\$ 191,475
Employee Contributions	20,153
Distributions	(14,544)
Earnings and Fee Credit	26,699
	<hr/>
Balance - June 30, 2004	<u>\$ 223,783</u>

NOTE 11. EMPLOYEES' RETIREMENT PLAN

The City of St. Louis has a defined benefit pension plan covering full-time employees hired before June 1, 1999. Employees hired after this date are only eligible for the ICMA Defined Contribution Money Purchase Pension Plan implemented on June 1, 1999.

Plan Description - The defined benefit plan is operated by the Municipal Employees Retirement System (MERS), which is an agent multiple-employer retirement system. MERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to:

Municipal Employees Retirement System of Michigan
447 Canal Road
Lansing, Michigan 48917

The pension plan provided pension benefits, deferred allowances, and death and disability benefits. Benefits vest after 6 years of service. Normal retirement is based on one of the following requirements:

1. Age 60 with 10 or more years of credited service.
2. Age 55 with 15 or more years of credited service.
3. Age 55 with 25 or more years of credited service.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 11. EMPLOYEES' RETIREMENT PLAN (Continued)

The retirement allowance is reduced $\frac{1}{2}$ of 1% for each complete month that the retirement date precedes the age at which full normal retirement benefits are available. Pension provisions include allowances whereby an employee may terminate employment with the City after accumulating 6 years of service but before reaching the age of 60 (age 55 or 50 in certain cases). If the employee does not withdraw his or her accumulated contributions, the employee is entitled to all pension benefits upon reaching retirement age as discussed above.

Pension provisions include death and disability benefits. A disabled employee is entitled to full benefits after acquiring 6 or more years of credited service. A surviving spouse is entitled to receive 85% of the employee's straight life allowance. Children are entitled to 50% of the straight life allowance.

Funding Policy - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Employees groups are required to make contributions to the system at the following rates of covered payroll: General Non-Union 4.88%; Police and Fire 0.53%; City Manager 2.00%; and Electric Union 0.53%. The City has responsibility for making actuarially determined contributions to the system.

Annual Pension Costs - For year ended June 30, 2004, the City's annual pension cost of \$93,802 for the plan was equal to the actual contribution, which was greater than the required amount. The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include: (a) an 8% investment rate of return; (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 11. EMPLOYEES' RETIREMENT PLAN (Continued)

Three year trend information as of December 31, 2003 follows:

	2003	2002	2001
Annual Pension Cost	\$ 93,802	\$ 35,088	\$ 40,167
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0
Actuarial Accrued Liability	5,456,339	5,203,332	4,881,570
Actuarial Value of Assets	4,885,175	4,750,822	4,828,358
Unfunded (Overfunded) AAL	571,164	452,510	53,212
Funded Percentage	90%	91%	99%
Covered Payroll	787,368	764,824	840,752
UAAL as a Percentage of Covered Payroll	72.5%	59.2%	6.3%

In an effort to phase out the MERS defined benefit retirement plan described above, the City adopted a resolution to implement the ICMA Defined Contribution Money Purchase Plan for all employees of the City. Three plans, electrical employees, police employees, and non-union employees, were implemented beginning July 1, 1999, and are the only pension plans available to new employees after that date. The City's contribution ranges from 7% to 8% of each participants wages for the plan year contingent upon the participant electing to contribute 3% of earnings. The participants' contributions are immediately 100% vested and the City's contributions are vested over a five year period. Employer contributions for the plans were \$35,696 for the year ended June 30, 2004.

NOTE 12. LEASE REVENUE

The City leases a 1997 fire truck to the Mid-Michigan Community Fire Board. The City obtained a loan during the year ended June 30, 1997 to finance the purchase of the fire truck. Obligations related to the loan are recorded in the General Long-term Debt Account Group. The lease is a capital lease that contains a bargain purchase option and therefore is not recorded in the City's capital assets. The following is a schedule of future minimum lease revenues under the capital lease, together with the net present value of the minimum lease revenues as of June 30, 2004:

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 12. LEASE REVENUE (Continued)

<u>Year Ending June 30,</u>	
2005	\$ 19,662
2006	19,662
2007	19,663
	<hr/>
Minimum lease revenues	58,987
Less: Amount representing interest	(5,688)
	<hr/>
Present value of minimum lease revenues	<u>\$ 53,299</u>

In addition to the Mid-Michigan Community Fire Board lease, the St. Louis Building Authority, Library Fund, and General Fund have entered into an agreement in which the Library Fund makes lease rental payments to the General fund for the use of the library. The General fund in turn makes rental payments to the St. Louis Building Authority debt fund equal to the Building Authorities debt service on the bonds issued to construct the library.

NOTE 13. BUILDING INSPECTION

The City does not maintain a separate fund for building inspection services. Expenditures for these services are classified to a separate function throughout the year. During the year ended June 30, 2004, the building permit and inspection function of the City produced revenues totaling \$13,090 and incurred direct expenditures totaling \$53,934.

NOTE 14. IMPLEMENTATION OF NEW ACCOUNTING STANDARD

As of and for the year ended June 30, 2004, the City implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a governments' major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

Management has elected to utilize the transition option in the implementation of GASB No. 34 and plans to capitalize the value of its network of streets as an infrastructure asset in its June 30, 2005 financial statements.

CITY OF ST. LOUIS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 620,200	\$ 625,400	\$ 597,062	\$ (28,338)
Licenses and permits	9,600	21,900	18,805	(3,095)
Federal aid	100,000	100,000	56,715	(43,285)
State aid	888,400	888,400	830,767	(57,633)
Charges for services	7,950	7,950	3,737	(4,213)
Interest and dividends	5,300	7,300	8,066	766
Rents and royalties	82,240	83,940	84,258	318
Fines and forfeits	14,750	14,750	10,020	(4,730)
Donations and contributions	4,750	4,750	2,000	(2,750)
Sale of assets	-	57,222	57,222	-
Miscellaneous	76,350	76,150	74,603	(1,547)
Total revenues	<u>1,809,540</u>	<u>1,887,762</u>	<u>1,743,255</u>	<u>(144,507)</u>
EXPENDITURES				
General Government:				
City commission	\$ 39,470	\$ 43,500	\$ 48,078	\$ (4,578)
City manager	83,650	88,250	84,892	3,358
Clerk/Treasurer	66,350	66,350	62,330	4,020
Assessing	36,700	46,600	44,336	2,264
Elections	9,850	3,100	3,345	(245)
Buildings and grounds	162,790	169,790	184,848	(15,058)
All other general government	15,575	15,575	15,940	(365)
Public Safety:				
Fire protection contract	64,962	64,962	64,962	-
Police department	466,500	509,425	500,638	8,787
Building inspection and regulation activities	51,900	53,150	51,860	1,290
Public Works:				
Public works	129,500	129,500	124,864	4,636
Community/Economic Development:				
Housing and redevelopment	450,150	450,150	333,849	116,301
Community planning and development	19,800	19,800	20,301	(501)
Economic development	43,123	43,123	39,633	3,490
Recreation and Culture:				
Parks and recreation	78,325	78,325	63,683	14,642
Capital Outlay:				
General government	20,000	29,375	65,257	(35,882)
Police	27,000	27,000	24,405	2,595
Parks and recreation	2,500	2,500	-	2,500
Debt Service:				
Debt service	19,663	55,063	55,063	-
Total expenditures	<u>1,787,808</u>	<u>1,895,538</u>	<u>1,788,284</u>	<u>107,254</u>
Excess (deficiency) of revenues over expenditures	<u>21,732</u>	<u>(7,776)</u>	<u>(45,029)</u>	<u>(37,253)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt obligations	-	-	52,000	52,000
Transfers-in	184,759	221,759	237,583	15,824
Transfers-out	(206,491)	(213,983)	(145,278)	68,705
Total other financing sources and uses	<u>(21,732)</u>	<u>7,776</u>	<u>144,305</u>	<u>136,529</u>
Net change in fund balances	-	-	99,276	99,276
Fund balances-beginning	<u>360,356</u>	<u>360,356</u>	<u>360,356</u>	<u>-</u>
Fund balances-ending	<u>\$ 360,356</u>	<u>\$ 360,356</u>	<u>\$ 459,632</u>	<u>\$ 99,276</u>

CITY OF ST. LOUIS
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
State aid	\$ 201,000	\$ 201,000	\$ 260,328	\$ 59,328
Interest and dividends	2,250	2,250	720	(1,530)
Miscellaneous	700	700	14,732	14,032
Total revenues	<u>203,950</u>	<u>203,950</u>	<u>275,780</u>	<u>71,830</u>
EXPENDITURES				
Construction - street	156,150	101,650	95,214	6,436
Miscellaneous	150	150	120	30
Construction - storm infiltration	-	2,075	2,075	-
Routine maintenance - streets	112,600	112,600	85,489	27,111
Routine maintenance - bridges	4,750	4,750	862	3,888
Traffic services maintenance	8,000	8,000	4,733	3,267
Winter maintenance	29,600	42,406	42,357	49
Administration and engineering	8,000	8,000	8,772	(772)
MDOT - surface maintenance	1,100	1,100	78	1,022
MDOT - sweeping and flushing	4,975	4,975	1,317	3,658
MDOT - trees and shrubs	1,900	3,920	3,903	17
MDOT - drainage and ditches	1,375	1,375	-	1,375
MDOT - traffic signals	-	45	41	4
MDOT - pavement markings	900	900	402	498
MDOT - winter maintenance	3,750	3,750	3,560	190
Total expenditures	<u>333,250</u>	<u>295,696</u>	<u>248,923</u>	<u>46,773</u>
Excess (deficiency) of revenues over expenditures	<u>(129,300)</u>	<u>(91,746)</u>	<u>26,857</u>	<u>118,603</u>
OTHER FINANCING SOURCES (USES)				
Transfers-out	(50,000)	(50,000)	(45,718)	4,282
Total other financing sources and uses	<u>(50,000)</u>	<u>(50,000)</u>	<u>(45,718)</u>	<u>4,282</u>
Net change in fund balances	<u>(179,300)</u>	<u>(141,746)</u>	<u>(18,861)</u>	<u>122,885</u>
Fund balances-beginning	<u>123,790</u>	<u>123,790</u>	<u>123,790</u>	<u>-</u>
Fund balances-ending	<u>\$ (55,510)</u>	<u>\$ (17,956)</u>	<u>\$ 104,929</u>	<u>\$ 122,885</u>

CITY OF ST. LOUIS
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET
For the Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
State aid	\$ 75,000	\$ 75,000	\$ 97,262	\$ 22,262
Interest and dividends	2,500	2,500	1,176	(1,324)
Miscellaneous	500	500	2,539	2,039
Total revenues	<u>78,000</u>	<u>78,000</u>	<u>100,977</u>	<u>22,977</u>
EXPENDITURES				
Construction - streets	30,250	70,340	70,340	-
Routine maintenance - streets	130,600	130,600	110,382	20,218
Traffic services maintenance	4,800	5,695	5,617	78
Winter maintenance	23,250	32,320	32,140	180
Administration and engineering	9,350	9,350	8,755	595
Total expenditures	<u>198,250</u>	<u>248,305</u>	<u>227,234</u>	<u>21,071</u>
Deficiency of revenues over expenditures	<u>(120,250)</u>	<u>(170,305)</u>	<u>(126,257)</u>	<u>44,048</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	50,000	50,000	60,718	10,718
Total other financing sources and uses	<u>50,000</u>	<u>50,000</u>	<u>60,718</u>	<u>10,718</u>
Net change in fund balances	<u>(70,250)</u>	<u>(120,305)</u>	<u>(65,539)</u>	<u>54,766</u>
Fund balance-beginning	<u>156,039</u>	<u>156,039</u>	<u>156,039</u>	<u>-</u>
Fund balances-ending	<u>\$ 85,789</u>	<u>\$ 35,734</u>	<u>\$ 90,500</u>	<u>\$ 54,766</u>

CITY OF ST. LOUIS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

	Special Revenue Funds			Debt Service Funds				Capital Project Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Oakgrove Cemetery	T.A. Cutler Memorial Library	Industrial Park	1993 Special Assessment Bond	1997 Special Assessment Bond	Building Authority	2002 General Obligation Limited Tax	Parking Improvements	Cemetery	
ASSETS										
Cash and cash equivalents	\$ 34,415	\$ 45,926	\$ 11,113	\$ 2,793	\$ 2,155	\$ 1,700	\$ 10,332	\$ 1,398	\$ 38,238	\$ 148,070
Investments	-	22,721	-	-	-	-	-	-	113,575	136,296
Assessments receivable, net	-	-	-	-	6,883	-	-	-	-	6,883
Other receivables	101	121	27,704	-	-	-	-	-	2,538	30,464
Total assets	\$ 34,516	\$ 68,768	\$ 38,817	\$ 2,793	\$ 9,038	\$ 1,700	\$ 10,332	\$ 1,398	\$ 154,351	\$ 321,713
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ 5,667	\$ 3,899	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,566
Accrued expenses	1,274	1,902	-	-	-	-	-	-	-	3,176
Deferred revenue	-	-	-	-	6,883	-	-	-	-	6,883
Total liabilities	6,941	5,801	-	-	6,883	-	-	-	-	19,625
Fund balances:										
Unreserved and undesignated	27,575	62,967	38,817	2,793	2,155	1,700	10,332	1,398	154,351	302,088
Total fund balances	27,575	62,967	38,817	2,793	2,155	1,700	10,332	1,398	154,351	302,088
Total liabilities and fund balances	\$ 34,516	\$ 68,768	\$ 38,817	\$ 2,793	\$ 9,038	\$ 1,700	\$ 10,332	\$ 1,398	\$ 154,351	\$ 321,713

CITY OF ST. LOUIS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Special Revenue Funds			Debt Service Funds				Capital Project Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Oakgrove Cemetery	T.A. Cutler Memorial Library	Industrial Park	1993 Special Assessment Bond	1997 Special Assessment Bond	Building Authority	2002 General Obligation Limited Tax	Parking Improvements	Cemetery	
REVENUES										
Federal aid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 138,207	\$ -	\$ 138,207
State aid	-	8,583	-	-	-	-	-	-	-	8,583
Charges for services	20,012	2,383	-	-	-	-	-	-	-	22,395
Interest and dividends	977	2,672	2,316	133	939	7	60	-	6,265	13,369
Rents and royalties	-	-	-	-	-	30,540	-	-	-	30,540
Fines and forfeits	-	106,777	-	-	-	-	-	-	-	106,777
Special assessments, net	-	-	-	727	1,954	-	-	-	-	2,681
Donations	-	20,716	-	-	-	-	-	-	-	20,716
Miscellaneous	128	7,866	-	-	-	-	-	-	1,295	9,289
Total revenues	21,117	148,997	2,316	860	2,893	30,547	60	138,207	7,560	352,557
EXPENDITURES										
General government	51,321	-	-	-	-	-	-	-	612	51,933
Public works	-	-	-	-	-	-	-	469,542	-	469,542
Community development	-	-	300	-	-	-	-	-	-	300
Recreation and culture	-	142,555	-	-	-	-	-	-	-	142,555
Capital outlay	19,528	-	-	-	-	-	-	-	-	19,528
Debt service	-	-	-	-	13,230	33,440	48,812	-	-	95,482
Total expenditures	70,849	142,555	300	-	13,230	33,440	48,812	469,542	612	779,340
Excess (deficiency) of revenues over expenditures	(49,732)	6,442	2,016	860	(10,337)	(2,893)	(48,752)	(331,335)	6,948	(426,783)
OTHER FINANCING SOURCES (USES)										
Transfers-in	27,000	19,000	-	-	10,265	-	49,323	40,000	-	145,588
Total other financing sources and uses	27,000	19,000	-	-	10,265	-	49,323	40,000	-	145,588
Net change in fund balances	(22,732)	25,442	2,016	860	(72)	(2,893)	571	(291,335)	6,948	(281,195)
Fund balances-beginning	50,307	37,525	36,801	1,933	2,227	4,593	9,761	292,733	147,403	583,283
Fund balances-ending	\$ 27,575	\$ 62,967	\$ 38,817	\$ 2,793	\$ 2,155	\$ 1,700	\$ 10,332	\$ 1,398	\$ 154,351	\$ 302,088

CITY OF ST. LOUIS
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
June 30, 2004

	Swimming Pool	Housing Commission	Solid Waste	Total Nonmajor Enterprise Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ 58,261	\$ 454,754	\$ 49,091	\$ 562,106
Accounts receivable, net	-	6,153	20,142	26,295
Other receivables	2,513	8,308	-	10,821
Due from other funds	-	58,540	-	58,540
Prepaid items	-	11,058	-	11,058
Total current assets	<u>60,774</u>	<u>538,813</u>	<u>69,233</u>	<u>668,820</u>
Noncurrent assets:				
Land and site improvements, net	-	40,830	-	40,830
Buildings and improvements, net	-	1,379,910	-	1,379,910
Equipment, net	-	49,433	-	49,433
Total noncurrent assets	<u>-</u>	<u>1,470,173</u>	<u>-</u>	<u>1,470,173</u>
Total assets	<u>60,774</u>	<u>2,008,986</u>	<u>69,233</u>	<u>2,138,993</u>
LIABILITIES				
Accounts payable	-	13,004	2,733	15,737
Accrued expenses	-	45,005	773	45,778
Deposits and other liabilities	-	12,501	-	12,501
Due to other funds	-	58,540	-	58,540
Deferred revenue	-	1,438	-	1,438
Total liabilities	<u>-</u>	<u>130,488</u>	<u>3,506</u>	<u>133,994</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	1,470,173	-	1,470,173
Unrestricted	60,774	408,325	65,727	534,826
Total net assets	<u>\$ 60,774</u>	<u>\$ 1,878,498</u>	<u>\$ 65,727</u>	<u>\$ 2,004,999</u>

CTTY OF ST. LOUIS
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
For the Year Ended June 30, 2004

	Swimming Pool	Housing Commission	Solid Waste	Total Nonmajor Enterprise Funds
OPERATING REVENUES				
Charges for services	\$ -	\$ 145,816	\$ 234,806	\$ 380,622
Miscellaneous	-	1,435	-	1,435
Total operating revenues	-	147,251	234,806	382,057
OPERATING EXPENSES				
Salaries and wages	-	78,625	33,018	111,643
Employee benefits	-	37,328	11,762	49,090
Supplies	-	3,474	626	4,100
Contracted services	15,013	17,707	148,848	181,568
Insurance	-	13,382	1,663	15,045
Telephone and communications	-	3,979	-	3,979
Travel, meals and lodging	-	4,188	-	4,188
Utilities	-	69,093	-	69,093
Repair and maintenance	-	129,082	-	129,082
Equipment rental	-	-	31,486	31,486
Miscellaneous	-	13,479	120	13,599
Depreciation	-	178,306	-	178,306
Total operating expenses	15,013	548,643	227,523	791,179
Operating income (loss)	(15,013)	(401,392)	7,283	(409,122)
NONOPERATING REVENUES (EXPENSES)				
Donations from public and private sources	41,848	-	-	41,848
Operating and capital grants	-	740,719	-	740,719
Housing assistance payments	-	(496,028)	-	(496,028)
Investment earnings	178	2,103	490	2,771
Other nonoperating revenue	-	3,097	-	3,097
Gain (loss) on sale of assets	-	(326)	-	(326)
Total nonoperating revenue (expenses)	42,026	249,565	490	292,081
Income (loss) before transfers	27,013	(151,827)	7,773	(117,041)
TRANSFERS				
Transfers in	15,013	-	-	15,013
Changes in net assets	42,026	(151,827)	7,773	(102,028)
Total net assets-beginning	18,748	2,030,326	57,954	2,107,028
Total net assets-ending	\$ 60,774	\$ 1,878,499	\$ 65,727	\$ 2,005,000

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the City Council
City of St. Louis
Gratiot County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of St. Louis, Gratiot County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of St. Louis, Michigan's basic financial statements and have issued our report thereon dated September 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

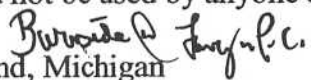
As part of obtaining reasonable assurance about whether City of St. Louis' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of St. Louis' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the City Council, the State of Michigan and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Midland, Michigan
September 22, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Members of the City Council
City of St. Louis
Gratiot County, Michigan

Compliance

We have audited the compliance of the City of St. Louis, Gratiot County, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of St. Louis's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City St. Louis's management. Our responsibility is to express an opinion on the City of St. Louis's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of St. Louis's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of St. Louis's compliance with those requirements.

In our opinion, the City of St. Louis complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

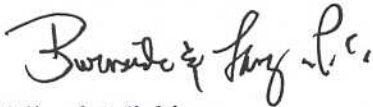
Internal Control Over Compliance

The management of the City of St. Louis is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

In planning and performing our audit, we considered the City of St. Louis's internal control over compliance with requirements that could have a direct and material effect on a major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the City Council, the State of Michigan and federal awarding agencies and is not intended and should not be used by anyone other than these specified parties.



Midland, Michigan
September 22, 2004

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2004**

Federal Grantor	Federal CFDA Number	Federal Expenditures
U.S. department of Housing and Urban Development		
Public and Indian Housing	14.850	\$ 136,525
Section 8 Housing Choice Vouchers	14.871	576,349
Public Housing Capital Fund	14.872	27,845
MEDC's Community Development Block Grant	14.228	138,207
Brownfield Pilot Grant	66.811	56,715
Total Federal Awards		\$ 935,641

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to generally accepted accounting principles as applicable to state and local governmental units. The following is a summary of the more significant policies relating to the aforementioned grant programs:

1. The Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.
2. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amount reported on HUD Form 52681 "Voucher for Payment of Annual contribution and Operating Statement - housing assistance payments program" submitted as of June 30, 2004.
3. The federal amount calculated on HUD Form 52723 "Calculation of Performance Funding System Operating Subsidy" is in agreement with the Schedule of Expenditures of Federal Awards.
4. The commission is a member of the Municipal Underwriters of Michigan, which is an association organized to purchase commercial insurance for protection against loss for Michigan cities, counties, townships and special service governments. The commission is insured up to the following limits: Liability - \$1,000,000, automotive - \$1,000,000, property - \$5,722,000, subject to deductibles of \$0, \$100, and \$250, respectively. The commission is not subject to supplemental premium assessments by the association. The total insurance expense during the current year was \$13,382.
5. There were no loan guarantees outstanding at June 30, 2004.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ - yes X - no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ - yes X - no
- Noncompliance material to financial statements notes? _____ - yes X - no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ - yes X - no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ - yes X - none

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 51 O(a) of Circular A-133? _____ - yes X - no

Identification of major program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program(s) or Cluster</u>
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs: \$500,000

Auditee qualified as low-risk auditee? X - yes _____ - no

Section II - Financial Statement Findings

There were no findings or questioned costs for the year ended June 30, 2004.

Section III - Federal Award Findings and Questioned Costs

There were no findings or questioned costs for the year ended June 30, 2004.

**CITY OF ST. LOUIS
GRATIOT COUNTY, MICHIGAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2003**

There were no audit findings for the year ended June 30, 2003.

September 22, 2004

Members of the City Council
City of St. Louis
Gratiot County, Michigan

Dear Council Members:

In planning and performing our audit of the financial statements of the City of St. Louis, for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

AGREED-UPON CONDITIONS

An agreed-upon condition is a deficiency less serious than a reportable condition that management and auditors have agreed will be reported.

Appropriations in Budgetary Funds

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the City incurred expenditures in excess of amounts appropriated in functional areas of the General Fund's budget.

We recommend the modified accrual basis of accounting be considered when adopting and amending the budget of the City's governmental type funds. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the City Council and documented in the Council minutes. This will help prevent the City from incurring expenditures in excess of appropriations.

Accounting for Fixed Asset Additions

We again noted that fixed assets continue to be charged to expense accounts in the City's proprietary funds and that purchases below the City's threshold for capitalization continue to be charged to capital outlay in the governmental fund types with the expectation that these accounts will be "cleaned up" at year end. Following this practice produces interim financial reports that can be misleading to individuals with oversight responsibility. We recommend the accounting staff review its capitalization policy and properly account for these transactions as they occur. If need be, an additional analysis can be prepared by management to communicate the status of any capital project.

Reconciliation of Interfund Transactions

During our audit we noted that interfund transactions are not reconciled on a monthly basis, which means procedures are not in place to ensure total interfund payables equal total interfund receivables and total transfers-out equal total transfers-in. We recommend that management implement this monthly reconciliation to properly account for these types of transactions.

Revenue and Expenditure Projections

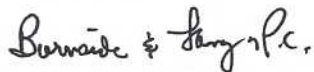
During our audit we noted that management does make projections of revenues and expenditures beyond the one year budget cycle. We recommend this analysis be made part of the budgeting process by estimating revenue and expenditures for three years beyond the current budget cycle. Following this recommendation will highlight potential financial difficulties and allow the City Council time to evaluate the effect on City services.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the June 30, 2004, financial statements, and this report does not affect our report on those financial statements dated September 22, 2004. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the City Council, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



BURNSIDE & LANG, P.C.